



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Paul Krutko

**SUBJECT:** PILOT SHOPPING CENTER  
IMPROVEMENT PROGRAM  
UPDATE

**DATE:** September 21, 2007

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**COUNCIL DISTRICT:** # 7, 9, 10

## RECOMMENDATION

Acceptance of the Pilot Shopping Center Improvement Program update.

## OUTCOME

Acceptance of this update will help facilitate the implementation of the Pilot Shopping Center Improvement Program. The Pilot Program will leverage the San Jose Redevelopment Agency's successful track record with the Façade Improvement Program. The Office of Economic Development (OED), Redevelopment Agency and the Department of Planning, Building and Code Enforcement (PBCE) will collaborate and draw on other City services to ensure program success.

The Pilot Program will take place over a two-year period. Following pilot completion, tax and other data (when available) documenting program performance, will be brought to the Community and Economic Development Committee. Property owners participating in the program will be obligated to maintain the City's investment and limit increases to existing lease rates.

## BACKGROUND

On May 21, 2007, the Community and Economic Development Committee recommended that the Pilot Program be approved by Council. Comments received at that meeting were incorporated into the memo that was presented to Council in September 2007.

On September 11, 2007, the City Council approved creation of the Pilot Program.

## ANALYSIS

The following analysis outlines program components and identifies potential shopping center sites in Council Districts 7, 9 and 10.

### **Pilot Shopping Center Improvement Program:**

The Pilot Program will help three shopping centers outside of Redevelopment Areas make upgrades similar to those achieved through the Redevelopment Agency's Façade Improvement Program, a proven program which has converted over 600 buildings into vibrant and attractive places to shop and do business. The Redevelopment Agency is generally prohibited from expending funds outside Redevelopment Agency areas, but using a cooperative agreement under the Pilot Program, the City will use General Fund and CDBG Fund resources to reimburse the Agency for participating in the program.

The Pilot Program will provide a menu of benefits to incentivize owner participation, as detailed in Attachment A. These include, but are not limited to:

- Architectural services to improve site appearance, e.g., awning styles and colors, exterior lighting, landscaping design, paint treatments/colors, and signage design and placement
- Bidding and construction management assistance
- Funding assistance of up to \$40,000 for every 60 lineal feet of store frontage with a \$5,000 investment from the property owner (City investment will be capped at \$300,000-\$350,000 per center).

Additional City services will also be offered to tenants and property owners, particularly with regard to the Green Building Program and energy efficiency initiatives to help reduce the energy needs of the shopping centers.

In concert with these efforts, OED staff has worked with the respective Council Offices to identify locations and negotiate with the property owners. PBCE will provide input and expertise to expedite the processing of necessary permits, and will guide the development of design elements with assistance from the Agency and OED.

To protect the City's investment and other policy imperatives, certain requirements are included in the agreement with the property owners and a memorandum of agreement recorded on the property. Many of these requirements are different than the requirements of the Agency FIP Program in order to comply with federal guidelines regarding the use of CDBG funding. The CDBG requirements include:

- Maintenance of the project for 10 years
- Projects will be subject to public bidding
- Bidding contractors must comply with Davis Bacon and prevailing wage
- The City must select the low bidder

Additionally, as in the Façade Improvement Program, rent increases for tenants in these shopping centers will be limited to an aggregate of 5% for two years unless otherwise provided

in their existing leases. All of the above-referenced items will be included in the memorandum of agreement.

### **Tentative Shopping Center Locations:**

Staff has preliminarily identified three locations that may qualify for the Pilot Program: Almaden Via Valiente Plaza (District 10), Hillsdale/Camden Shopping Center (District 9), and Seven Trees/Marina Food Shopping Center (District 7). Districts 7, 9, and 10 are ideal areas for the Pilot Program since they have limited Redevelopment Areas, have a variety of older centers and are generally under-retailed. Each of the locations identified represents an important neighborhood resource which can greatly benefit from site improvements. Below is a brief description of each property.

#### *Almaden Via Valiente Plaza (District 10)*

The Via Valiente Shopping Center is located in District 10 at the junction of Almaden Expressway and Via Valiente. The parcel is approximately 6.5 acres and is anchored by a PW Market and a Long's Drug Store.

#### *Hillsdale/Camden Shopping Center (District 9)*

The Hillsdale/Camden Shopping Center is located in District 9 and is situated between Camden Avenue, Hillsdale Avenue, Donna Lane and Ross Avenue. The parcel is approximately 8.3 acres, anchored by Big Lots.

#### *Seven Trees/Marina Food Shopping Center (District 7)*

The Seven Trees/Marina Food Shopping Center is located in District 7 at the junction of Monterey Highway and Senter Road. The parcel is approximately 12.9 acres and is anchored by Marina Foods; Bank of America also has a presence at the center.

Council approved the Pilot Program on September 11. Since that time staff has begun assembling ownership information and making contact with property owners to gauge interest in the program. Given past experience with the Façade Improvement Program, it is expected that a range of challenges will be encountered with any given location, including but not limited to economic/financial concerns, tenancy/vacancy issues and code violations. Staff will evaluate each site against a range of selection criteria and determine whether such challenges can be overcome or whether additional locations would need to be researched and secured.

Experience has also shown that façade improvements are most successful when three or fewer property owners are involved, but this may limit available options for the Pilot Program. An exception may be made for the Hillsdale site, which has multiple owners. This site is adjacent to a neighborhood for which an intensive cleanup effort is underway at Donna Lane.

## **EVALUATION AND FOLLOW-UP**

Implementation of the Pilot Program to provide façade improvement services outside of Redevelopment Areas will help staff determine whether such a program should be established as an ongoing tool to support retail growth in San Jose. Program evaluation will be based primarily on the following factors:

- Attraction of new retailers, leading to a diverse mix of jobs, products and services for San Jose residents and visitors
- The improved appearance of targeted San Jose neighborhoods
- The increased visibility, and therefore economic viability, of existing neighborhood retail offerings
- Increased rapport with local property owners for enhanced business appreciation efforts and Council commendations
- The number of net new jobs created in centers
- Revenues to the City through increased business sales tax receipts

Should the program be considered a success, a proposal for a wider Shopping Center Improvement Program will be brought forward for Council deliberation. Such a proposal would reflect the lessons learned in operating the Pilot Program and a more refined retail strategy. Given the nature of retail leakage between communities, staff anticipates that improvement of centers near San Jose's borders could be a selection factor in the future, as discussed at the Community and Economic Development Committee meeting on May 21, 2007.

## **POLICY ALTERNATIVES**

*Alternative #:* Focus on alternative and/or additional shopping center locations

**Pros:** Identification of additional centers could increase the pool of potential sites for façade improvements.

**Cons:** A significant amount of time and effort has already been expended on researching the three current locations.

**Reason for not recommending:** Additional sites will be researched if it is determined that the current locations are not likely to be successful.

## **PUBLIC OUTREACH/INTEREST**

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

While this memo does not meet the \$1 million threshold in Criterion 1, this memo will be posted on the City's website for the October 9, 2007 Community and Economic Development Committee agenda. The Pilot Shopping Center Improvement Program was discussed in Council Committees in November 2006 and May 2007, and was approved by Council on September 11, 2007.

### **COORDINATION**

This memorandum has been coordinated with Department of Planning, Building and Code Enforcement (PBCE), the City Attorney's Office (CAO) and the Redevelopment Agency.

### **FISCAL/POLICY ALIGNMENT**

Implementation of the Pilot Program will further the City's Economic Development Strategy by helping to: (a) "Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs" (Initiative 8), and (b) "Develop Retail to Full Potential and Maximize Revenue Impact (Initiative 13).

### **COST SUMMARY/IMPLICATIONS**

Past experience suggests that each shopping center will require approximately \$300,000 - \$350,000. This amount will include a combined reimbursement for Redevelopment Agency staff time, design work, supplies and consultant services of approximately \$75,000 for the three projects. As part of the FY 2007/08 budget process, Council approved the use of \$400,000 in Community Development Block Grant Funds and an additional \$300,000 in one-time General Fund revenues.

### **CEQA**

Not a Project.



PAUL KRUTKO  
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For questions please contact Paul Krutko, Chief Development Officer at 408-535-8182.

**Pilot Shopping Center Improvement Program  
Program Elements**

*Eligibility Requirements*

The selection criteria for participation in the program will include:

- Properties with one or two owners or family ownership
- Properties with no major structural changes required, such as American's with Disabilities Act compliance changes or Unreinforced Masonry work
- Properties with no major code violations: clean-up of minor violations may be an incentive to participate in the program
- Properties with a forecast viability of at-least five years forecast as determined by vacancy rates, tenant mixes and lease terms

*Project Assistance*

The Pilot Shopping Center Improvement Program will draw from the menu of benefits outlined in this section to incentivize participation of property owners in the program. Once a shopping center owner and tenants commit to the Pilot Program, the project team will be driven by the Redevelopment Agency for project implementation.

Program assistance may include:

1. Offering a variety of architectural services which improve appearance of sites in an effort to improve retail performance. Depending on the property and its forecasted viability, Redevelopment Agency's architectural services may include:
  - Paint treatments and colors
  - Awning styles and colors
  - Landscaping design
  - Exterior lighting
  - Signage design and placement

Based on Redevelopment Agency experience with maximizing the effectiveness of the program, while minimizing expenditure, the Pilot Program will be limited in scope, promoting paint-based facade improvements and basic sign replacements, rather than in-depth investments.

2. Providing support services to ensure the successful implementation of site improvements, including:
  - Architectural design services at no cost to the property owner
  - Bidding and construction management assistance; in accordance with City policy, all construction costs will be based upon prevailing wages
  - Funding assistance of up to \$35,000 per 60 linear feet of store frontage with matching funds ratio of \$5,000 from property owner for an additional \$5,000 of City funds (though caps may be set for any given project)

3. Streamlining the process of obtaining site adjustment permits (as required prior to any exterior alterations can being made to a building), which will include:
  - Participation of PBCE throughout design and implementation process of the Pilot Program
  - Coordinated review and analysis of facade projects prior to architectural design
  - Assignment of a PBCE Project Manager, ensuring one point of contact for property owners and staff throughout the Facade Improvement Project
  
4. Providing information about the City's green building program and energy efficiency initiatives in an effort to help reduce the energy needs of the shopping center. Staff will coordinate with the Environmental Services Department and Pacific Gas and Electric to provide this service.

### *Ongoing Expectations*

Upon successful completion of necessary improvements, staff will develop Owner Participation Agreements/covenants as needed to guarantee maintenance of the facade improvements. According to the current Redevelopment Agency standard, property owners commit to seven years of regular maintenance. In addition, property owners agree not to increase lease rates for existing tenants by more than an aggregate of five percent in the first two years after participation in the program except where specified by existing leases.